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Moscow's Defense Spending Cuts Accelerate

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MOSCOW'S DEFENSE SPENDING CUTS ACCELERATE

Key Judgments

New policy directions, disarray in the military, and disruptions in industry all combine to impart great uncertainty in our estimates of Soviet defense spending in 1991. Taking all of the uncertainties into account, our estimate is that the 1991 decline in overall defense spending was between 10 and 25 percent, with a best estimate of 15 percent. This brings total cuts since 1988 to more than 25 percent and leaves spending at levels last seen in the early 1970s. As a result, the legacy of military-economic capacity left by the USSR for the successor states--primarily Russia--is much smaller than several years ago, and eroding rapidly.

Estimated procurement outlays--accounting for about 40 percent of total defense spending--dropped about 20 percent in 1991, and were one-third lower than at their high point in 1988 (see figure 1). Since 1988 there has been a sharp rise in the annual number of weapon production programs terminated or cut substantially.

Ground procurement was down 40 percent and theater air procurement was down almost half from 1988. Procurement for general purpose naval forces dropped roughly 30 percent in the same period. Procurement spending for the strategic offensive mission fell by one-third over the past three years. Estimated procurement spending for space programs declined by one-half since 1988. Strategic defensive forces continue to be the least affected mission area. We estimate spending for these forces declined less than 10 percent since 1988.

Our estimates for military research, development, testing, and evaluation (RDT&E) are much less precise, but funding for military R&D probably fell about 25 percent last year and was roughly one-third below peak levels. The number of men in uniform has declined by about 1

million since 1988, cutting personnel expenditures by about 20 percent. A somewhat smaller decline in spending for operations and maintenance was partially offset by the costs of relocating units and eliminating weapons.

The decline in defense spending accelerated in 1991--particularly in the latter part of the year--and is even more dramatic in 1992. High inflation and deficit-induced cuts are plaguing the defense budgets of all the new states as they attempt to reshape former Soviet forces into their own national armies and guard units. Russia and Ukraine are contending for control of the preponderance of former Soviet forces, but the expenses that accompany the assets they acquire will present a formidable financial challenge.

A draft defense budget for the Commonwealth of Independent States was submitted to the Russian cabinet in early March. With acknowledged inflation in weapons running at almost 600 percent, the 384-billion-ruble total appears to represent about a 50-percent cut in real terms from the 1991 Soviet defense budget. TASS claims that the budget calls for a 70-percent cut in procurement in real terms, compared with the 1991 Soviet budget. Most major weapons programs would have to be canceled to achieve such a huge cut in procurement in a single year.

Even this budget is probably overoptimistic, however, because it calls for substantial financing from non-Russian CIS members. For example, Byelarus's contribution was set at 30 billion rubles, but First Deputy Prime Minister Myasnikovich subsequently stated that his country planned to spend only 8 billion rubles on defense in 1992. In fact, we expect that Ukraine and most other CIS members will join Byelarus in allocating much less for defense than envisioned in the draft budget. Most of what they do allocate probably will be spent directly on their own military personnel. This means that the CIS will probably receive only token contributions for R&D and procurement, leaving Russia to pick up the bill. As a result, spending on arms in 1992 could be cut by more than 85 percent.

Defense Spending Cuts Accelerate

Even before the failed coup last August, economic disruptions, republic assertiveness, and turmoil in the military had fundamentally undercut implementation of the USSR's original 1991 defense program. In the aftermath of the coup, power shifted decisively to the republics, destroying the former union.

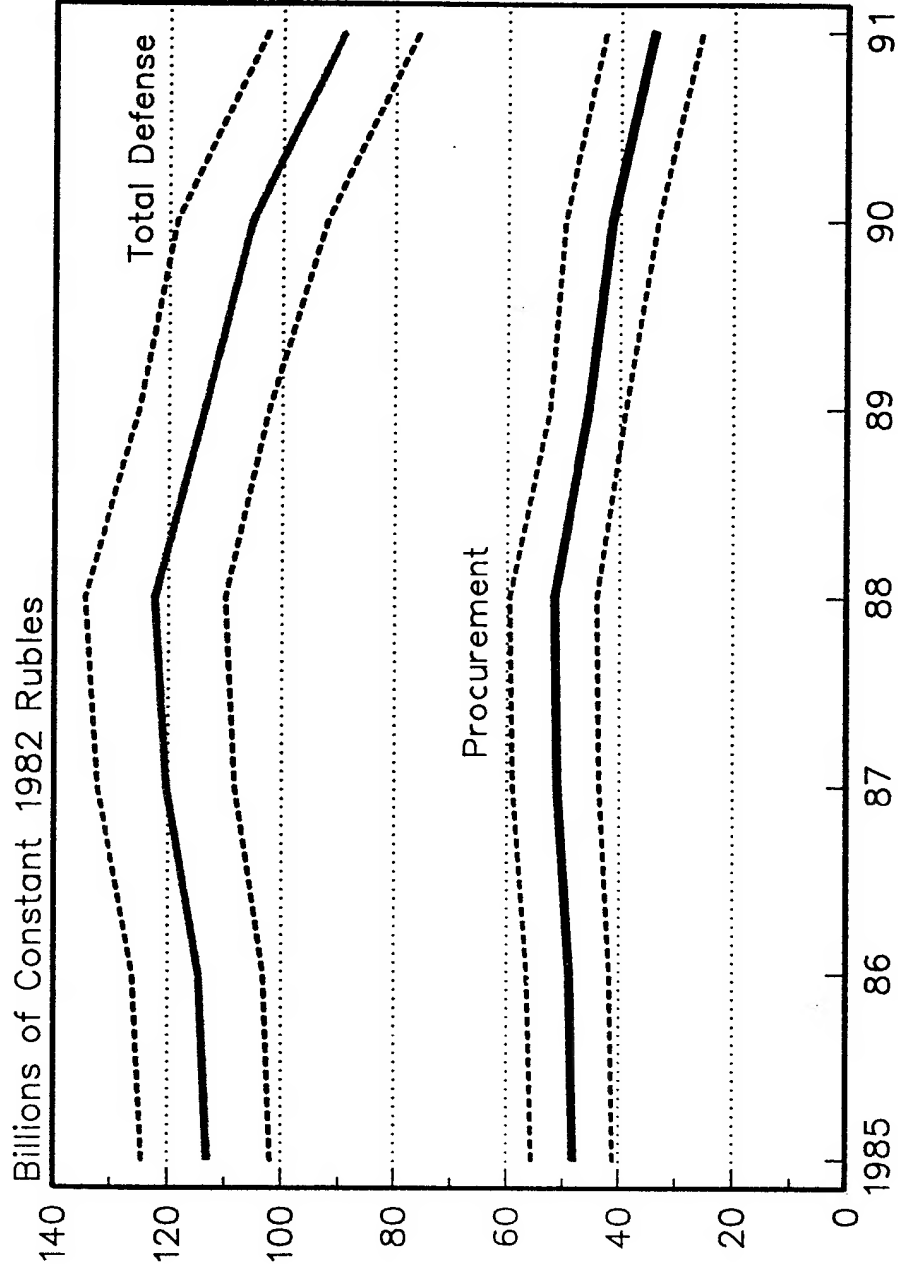
This paper documents our estimate of defense spending during this turbulent time. The disintegration of the USSR, together with worsening economic disruptions, makes the uncertainty surrounding our estimates unusually large this year (see box). Our estimates indicate that, after sizable cuts in both 1989 and 1990, cuts in real defense spending in the former Soviet Union accelerated in 1991. We estimate that, during this period, total spending declined by more than 25 percent after reaching its peak in 1988, and fell about 15 percent in 1991 alone. Reductions occurred in all major resource categories and mission areas and caused spending to fall to levels last seen in the early 1970s (see figure 2).

Increased Uncertainty in Estimating Defense Spending

New policy directions, disarray in the military, and disruptions in industry all combine to impart greater uncertainty in estimates of 1991 defense spending. We continue to rely on our direct-costing building-block methodology supplemented by analysis of announced cuts in the official defense budget. As in past years, we have the most confidence in our estimate of the procurement of major systems such as surface combatants and aircraft. We continue to have the least confidence in our estimates of spending on RDT&E. Taking all of the uncertainties into account, our estimate is that the 1991 decline in overall defense spending was from 10 to 25 percent, with a best estimate of 15 percent.

Figure 1

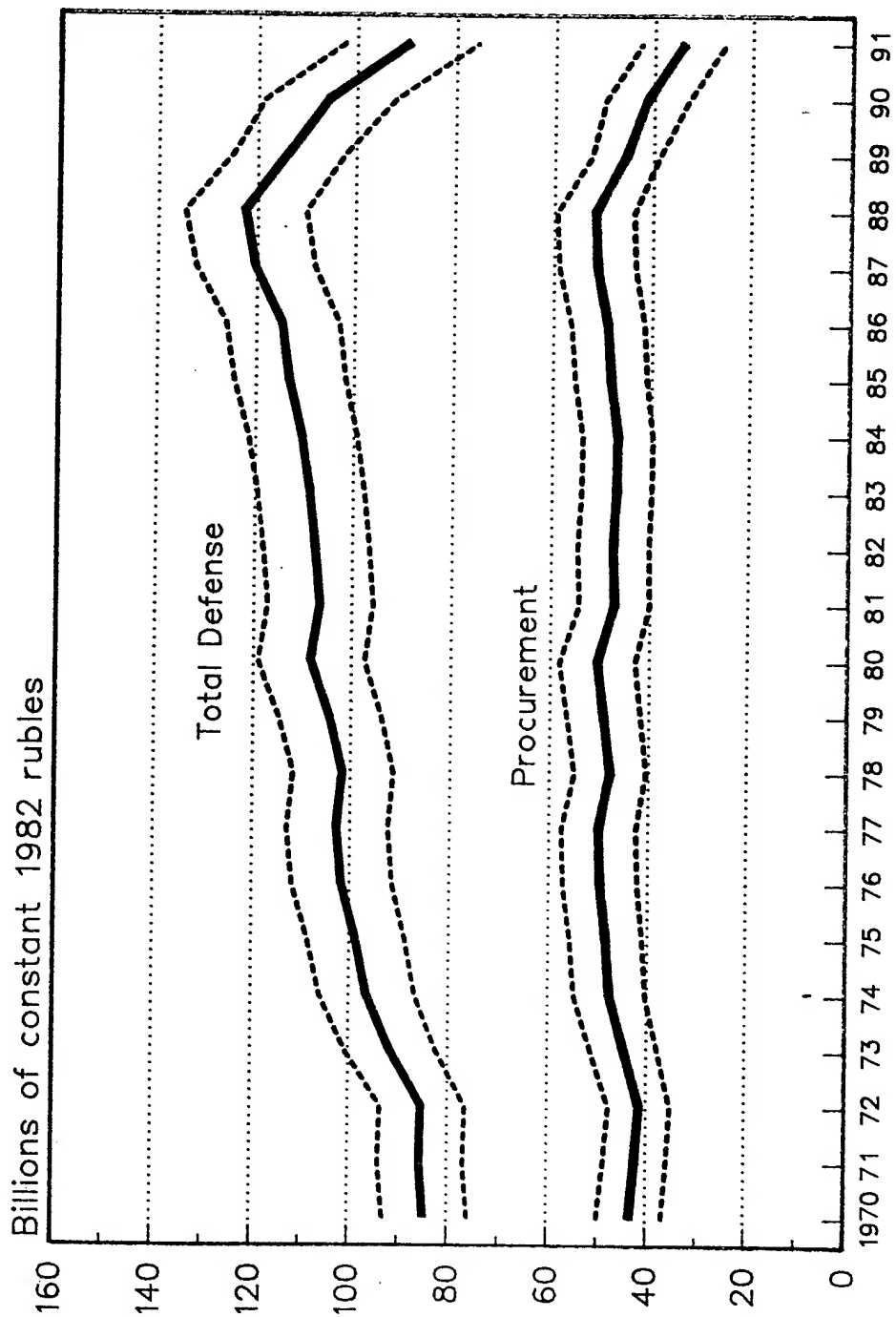
Estimated Soviet Spending for Defense Activities, 1985-91^a



^a These estimates are designed to capture real resource flows to defense programs. They do not measure military, defense industrial, or R&D capabilities. See DI Reference Aid SOV 87-10069 (Unclassified), November 1987, A Guide to Monetary Measures of Soviet Defense Activities.

Figure 2

Estimated Soviet Spending for Defense Activities, 1970-91



Procurement Spirals Downward

Estimated 1991 procurement outlays--accounting for about 40 percent of the total--are approximately one-third lower than at their high point in 1988 (see figure 1). Outlays dropped sharply in 1991--by about 20 percent, more than double the decline in each of the two previous years.

Reductions occurred in procurement for all types of general purpose weapons--land, naval, and air--and for strategic offensive weapons, and were both broader and deeper than in 1990. Procurement for strategic defensive forces, however, slowed only slightly (see figure 3). We believe that, during 1988-90, cuts in procurement were largely planned--primarily the result of unilateral cuts announced in January 1989 by then President Gorbachev. In 1991, however, scheduled declines were compounded, particularly in the latter half of the year, by falling weapons orders, supply disruptions, and resubordination of defense industry facilities--from all-union Soviet defense-industrial ministries to individual Commonwealth states--in the wake of the failed coup.

Our spending estimates are built on detailed analyses of Soviet weapons production, and the spending trends mirror trends in the Soviet weapons production base. On average over the past two decades, the USSR maintained an estimated 400 to 500 military systems in production. We estimate that since 1988 there has been a sharp increase in the number of programs terminated or cut substantially (see figure 4). On the other hand, some high-priority weapons production programs continued in 1991 at close to 1990 rates.

Ground Forces. Ground forces procurement continued to take heavy cuts, with estimated outlays down by about 40 percent from 1988 levels. After absorbing large cuts--

about 25 percent--during 1989-90, procurement expenditures for ground forces were cut again in 1991--by about 20 percent in real terms. The number of tanks procured dropped by 45 percent in 1991. The number of light armored vehicles procured fell by about 40 percent in 1991, and the number of artillery pieces by more than 45 percent.

Theater Air Forces. Estimated outlays for theater air procurement have fallen by about one-half since 1988, including a decline of around 20 percent last year.

Naval Forces. The general purpose Navy also took heavy cuts. Estimated procurement for general purpose naval forces has dropped roughly 30 percent since 1988, including a decline of about 20 percent last year. Delivery of major combatants and submarines fell sharply.

Strategic Offensive Forces. We estimate that procurement spending for the strategic offensive mission fell by approximately one-third over the past three years, including a decline of about 25 percent in 1991.

Strategic Defensive Forces. Strategic defense force modernization continued at a relatively steady pace last year--estimated spending for procurement has declined less than 10 percent since 1988.

Space. Estimated procurement spending for space programs has declined by about one-half since 1988, including a drop of around 20 percent in 1991. The number of space launches--and space launch vehicles procured--has declined by more than one-third since 1988 and is now the lowest in 25 years.

Figure 3

Estimated Soviet Spending for Military Procurement as a Share of 1988 Procurement Spending

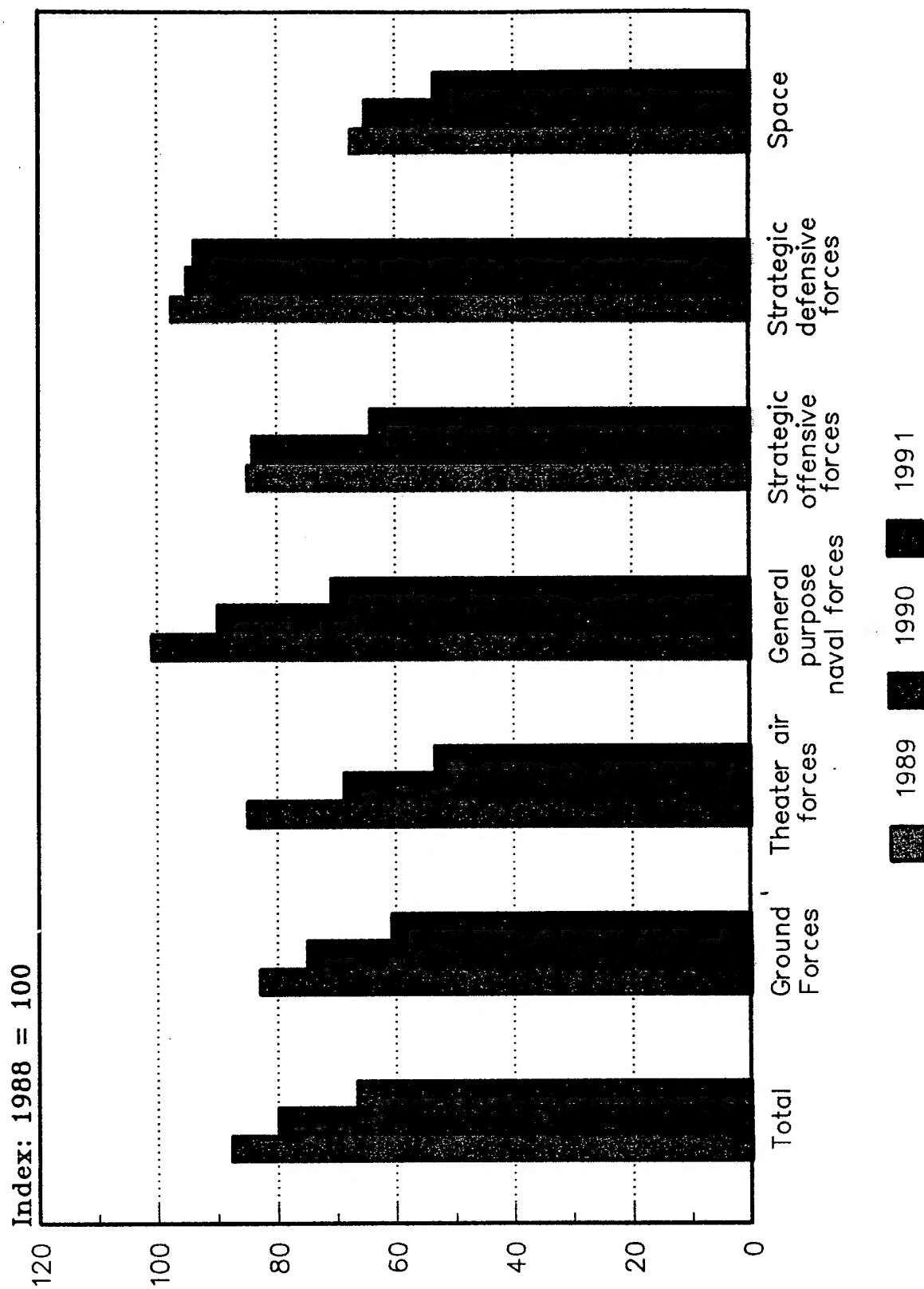
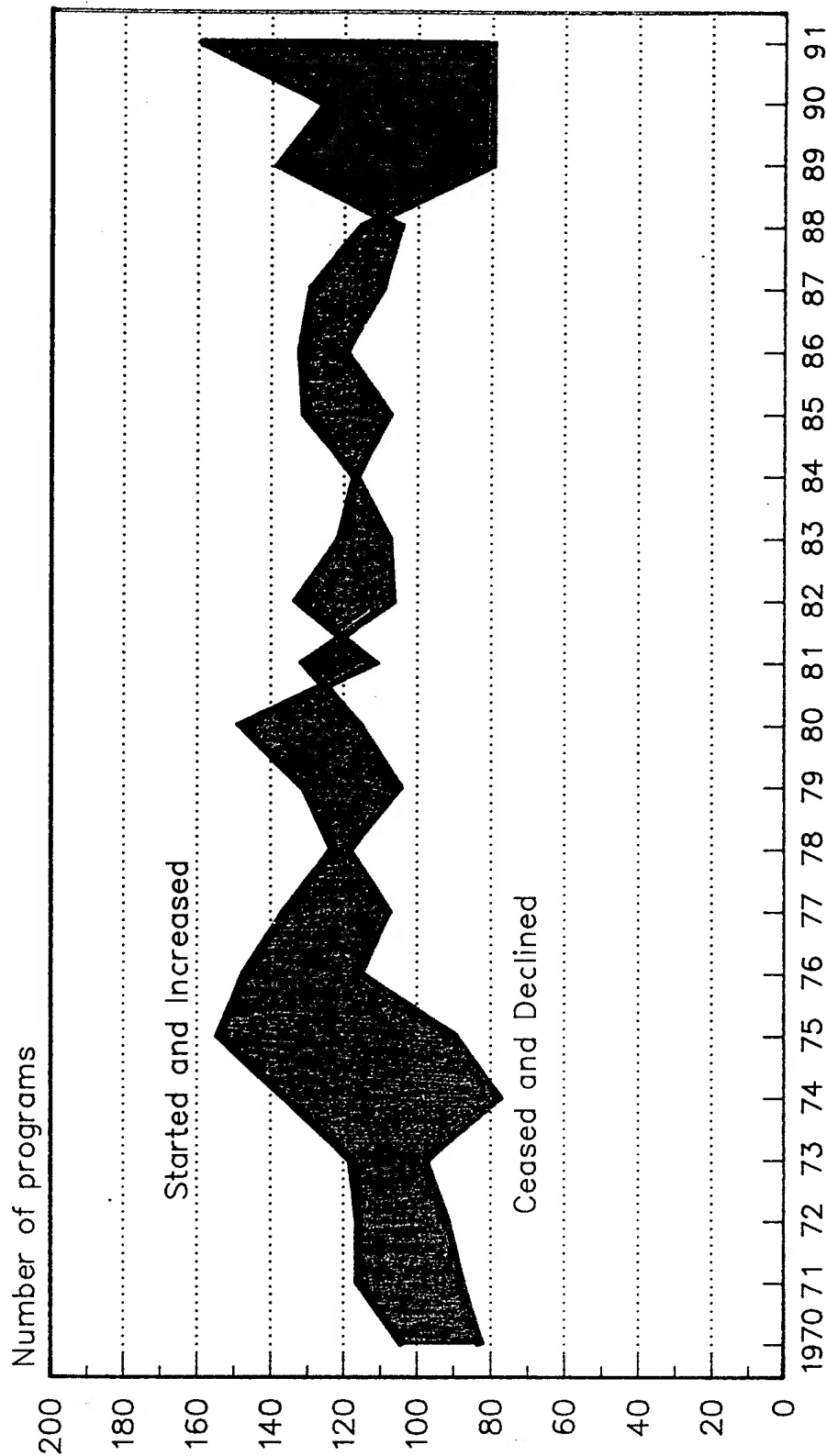


Figure 4

Estimated Soviet Weapon Production Program Activity, 1970-91^a



^a The green areas show the years for which the number of weapon program starts and substantial increases-- physical production increases of more than 10 percent-- exceeded the number of program cessations and substantial declines. The red areas show the years for which the reverse relationship prevails. Because of the difficulties of pinpointing the precise year some programs begin or end, we have more confidence in the general trends depicted than in the data for any given year.

Other Spending Categories

Personnel. Since 1988, personnel expenditures have dropped about 20 percent, and the number of military personnel has declined by about 1 million. Accelerating draft shortfalls throughout the former Soviet Union, reduced callup goals, tighter medical standards, and the early release of conscripts are rapidly reducing overall military strength.

Operations and Maintenance (O&M). A decline in spending for operations and maintenance--about 10 percent since 1988--reflects a reduction in the number of exercises and in overall operating tempos, which has been partially offset by the costs of relocating units and eliminating weapons. A continuing downturn in space activity, as well as a smaller force operating with lower equipment levels, also contributed to the reduction.

Research, Development, Testing, and Evaluation. We are least certain of our estimates of RDT&E because most of these activities are not directly observable. Although the most visible R&D activities generally continued last year, anecdotal evidence indicated that financial support was withdrawn by varying degrees at R&D facilities. The preponderance of anecdotal evidence showed that some work on a large number of individual programs continued last year. Official Soviet statements, assessments of a broad sample of R&D programs, and reporting from many sources suggest, however, that RDT&E expenditures, after falling by about 10 percent in 1990, were cut far more--by approximately 25 percent--in 1991.

Outlook

The downward spiral in defense spending is accelerating dramatically this year. Before the announcement of the Commonwealth's formation, the contradictory pressures of

inflation and the budget deficit, complicated by the republics' demands for cuts, resulted in a planned defense budget for 1992 that was up in nominal terms but down in real terms. In January 1992, the Russian legislature approved a first-quarter defense budget that cut overall procurement spending on the order of 85 percent and R&D spending about 65 percent.

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